WASHINGTON STATE LEGISLATURE
Office of the State Actuary

August 8, 2002

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OFM DIRECTOR'S OFFICE

Mr. Marty Brown, Director
Office of Financial Management
PO Box 43113
Olympia, WA 98504

Dear Mr. Brown:

As requested, we have prepared a fiscal note on the impact of Initiative 790 on contribution rates and liabilities of the Law Enforcement Officers' and Fire Fighters' Retirement System Plan 2. It was prepared with the aid of consulting actuary Norman Losk, FSA. It is enclosed with supporting legal analysis and a letter from Norman Losk summarizing the results of his studies.

This should provide all the information needed for you to prepare a fiscal impact statement for the initiative.

Sincerely,

Larry Risch

Larry Risch, MAAA
Deputy Actuary

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FISCAL NOTE

RESPONDING AGENCY:	CODE:	DATE:	REQUEST NO. / BILL NUMBER:
Office of the State Actuary	**035**	**7/30/02**	**Initiative 790**

SUMMARY:

This initiative impacts the Law Enforcement Officer's and Fire Fighter's Retirement System Plan 2 (LEOFF 2) by creating a board of trustees to govern the plan. The board would consist of six active members of LEOFF 2, three employer representatives, and two legislators. The board shall adopt actuarial tables, assumptions and cost methodologies, and shall provide for the design and implementation of increased benefits for members and beneficiaries of the plan subject to contribution rate limits within the act. These increased benefits may be reduced under certain circumstances.

The initiative provides that current benefits represent the minimum benefits of the plan. An additional minimum benefit is added. All investment earnings in excess of the actuarially assumed rate of return shall be used exclusively for additional benefits. The currently assumed rate is 8%.

Effective Date: July 1, 2003.

BACKGROUND DISCUSSION:

Prior to 1976 the LEOFF retirement system was under the oversight of the Public Employees Retirement System (PERS)/LEOFF board of trustees that invested the retirement funds, hired the executive director, contracted for actuarial services, and proposed legislation to improve benefits for members and retirees. Funding decisions were included in the state operating budget.

In 1976, the legislature created the Department of Retirement Systems (DRS) to assume most of the oversight duties of the LEOFF board of trustees. The Office of the State Actuary (OSA) was also created in 1976 to provide all actuarial services for the retirement systems and the legislature.

In 1981, the State Investment Board (SIB) was created to manage the investment of all state retirement systems assets.

In 1982, the PERS/LEOFF board was abolished and all remaining duties became part of DRS.

In 1998, the Pension Funding Council was created to adopt economic assumptions, provide for actuarial audits and adopt pension contribution rates.

MEMBERS IMPACTED:

How the 13,133 active members, 248 terminated vested members and 143 retired members of this system would be affected would depend on how the gains are distributed (this is not provided by the bill). It will also depend on the amount of assets in the plan when the gain occurs. The assets should continue to grow significantly even without additional benefits added to the plan.

As described below we estimate the average yearly distribution of 4% of the assets. This would result in an average distribution of $7,033 based on December 31, 2000 assets.

FISCAL IMPACT:

Actuarial Determinations:

The current contribution rate of LEOFF 2 totals 8.78% which is split 50% employee; 30% employer and 20% state. This contribution rate is lower than the expected long term cost of these benefits, as measured by the entry age cost method, due to the high level of recent investment return. The long term expected cost of the current benefits totals 16.72%.

We have estimated the impact of this initiative on the actuarial liabilities, the aggregate contribution rate, and the expected long term contribution rate:

(Dollars in Millions)	**Current**	**Increase**	**Total**
Actuarial Present Value of Projected Benefits The Value of the Total Commitment to all Current Members	$3,387	$6,771	$10,157
Unfunded Liability (PBO) The Value of the Total Commitment to all Current Members Attributable to Past Service	$(961)	$2,295	$1,334
Aggregate Contribution Rate			
Employee	4.39%	21.38%	25.77%
Employer	2.64%	12.83%	15.47%
State	1.75%	8.55%	10.30%
Total	8.78%	42.76%	51.54%
Long Term Contribution Rate			
Employee	8.36%		22.99%
Employer	5.02%		13.79%
State	3.34%		9.20%
Total	16.72%		45.98%

Fiscal Budget Determinations:

Adoption of the higher contribution rate determined in this Fiscal Note results in the increase in funding expenditures shown below, effective July 1, 2003. A different adoption date would not affect the rate, but would affect the dollar cost below.

Increase in Contribution Rates:	
Employee	21.38%
Employer	12.83%
State	8.55%
Costs (in Millions):	
2003-2005	
State:	
General Fund	177.5
Non-General Fund	0.0
Total State	**$ 177.5**
Local Government	$ 266.3
2005-2007	
State:	
General Fund	$ 202.9
Non-General Fund	0.0
Total State	**$ 202.9**
Local Government	$ 304.5
2003-2028	
State:	
General Fund	$4,822.1
Non-General Fund	0.0
Total State	**$4,822.1**
Local Government	$7,236.0

Actuary Comments:

- We have used the entry-age normal cost as an estimate of the long-term cost of the plan if there are no future gains and losses, plan changes or assumption changes.
- The projected fiscal impact was determined using the immediate change in the aggregate contribution rate shown above and projected salaries.
- The costs may be more or less depending on the experience of the plan.
- The costs were developed using the current cost method and assumptions.
- The effect of any future board action with respect to the investment assumption or other methods and assumptions, is not anticipated in determining the costs.

- In addition to the allocation of investment return in excess of the actuarially assumed rate of return to provide additional benefits, the Initiative gives the LEOFF Board authority to adopt "increased benefits". Those "increased benefits" would not require legislation to become effective. The legislature could repeal such benefits by acting within 90 days of the commencement of the next legislative session. The additional contributions for such benefits cannot exceed a total of 20% of pay (10% from the employees, 6% from the employers and 4% from the state).

If this Initiative is enacted and if the LEOFF Board adopts "increased benefits" with the maximum possible contribution, to be effective throughout the 2003-2005 biennium, the additional fiscal impact would be as follows:

	Contribution Rate	Estimated Dollar Contributions (in millions)
Employee	10%	207
Employer	6%	124
State	4%	83

This is the maximum possible impact of "increased benefits" on the costs of LEOFF 2 under the interpretation of the Initiative which is attached to this fiscal note.

Lawrence B. Risch

Larry Risch, A.S.A
Deputy Actuary

Norman S. Losk, F.S.A.
Senior Consultant
Gabriel, Roeder, Smith & Company
Consultants & Actuaries

STATEMENT OF DATA AND ASSUMPTIONS USED IN PREPARING THIS FISCAL NOTE:

The costs presented in this fiscal bill are based on our understanding of the bill as well as generally accepted actuarial practices including the following:

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the Dec. 31, 2000 actuarial valuation report of the Law Enforcement Officers' and Fighters' Retirement System, as adjusted in the prior session for the new demographic assumptions developed from the 1995-2000 actuarial experience.

2. As with the costs developed in the actuarial valuation, the emerging costs of the pension system will vary from those presented in the valuation report, or this fiscal note, to the extent that actual experience differs from that projected by the actuarial assumptions.

3. Additional assumptions used to evaluate the cost impact of the bill that were not used or disclosed in the actuarial valuation report include the following:

   Currently, returns that are higher than assumed result in gains that lower contribution rates. Returns that are lower than assumed result in losses that increase the contribution rates. Under Initiative 790, only losses would increase the rates. Gains would be used to provide additional benefits to the member.

   Currently, the assumed rate used to determine pension costs is 8 percent as set by the Legislature. This rate is the average long-term rate. There is no separate assumption as to the year-to-year fluctuation in the returns, or what the return will be for the short-term as opposed to the long term. Consulting actuary Norman S. Losk, F.S.A. of Gabriel, Roeder, Smith & Company summarizes the results of his study:

   > "In discussing the future with investment professionals, a consensus view seems to be that the future returns from equities are expected to be lower in the next decade than in recent decades. Thus, while it would be reasonable to use an effective return rate assumption of 3 percent - 3.5 percent based on our historical reviews, I recommend an effective rate assumption of 4 percent. This assumption reflects the expectations that:
   >
   > - Future returns will not be as high as in the recent past, and
   > - In years in which losses occur, those losses will not be as deep as in recent years"

   We assumed there would not be a change in the current investment policy.

   However, since earning 8 percent and paying out 4 percent each year amounts to net earnings of 4 percent, then 4 percent is used in determining the cost to fund the current benefits. Using 8 percent to value the current benefits, and then trying to separately calculate the cost of an average distribution of 4 percent of assets would yield the same result, but with far more complications.

4. The analysis of this bill does not consider any other proposed changes to the pension system. The combined impact of several changes to the system could exceed the sum of each proposed change considered individually.

5. This fiscal note is intended for use only for this initiative and the supplemental rate to be charged if passed by the voters.

6. The funding method used for Plan 1 utilizes the Plan 2 employer/state rate as the Normal Cost and amortizes the remaining liability Unfunded Actuarial Accrued Liability (UAAL) by the year 2024. Benefit increases to Plan 2 will change the UAAL in Plan 1. The cost of benefit increases to Plan 1 increases the UAAL.

7. Plan 2 utilizes the Aggregate Funding Method. The cost of Plan 2 is spread over the average working lifetime of the current active Plan 2 members.

GLOSSARY OF ACTUARIAL TERMS:

Actuarial Present Value: The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions.

Projected Benefits: Pension benefit amounts that are expected to be paid in, taking into account such items as the effect of advancement in age and past and anticipated future compensation and service credits.

Unfunded Actuarial Accrued Liability (UAAL): The cost of Plan 1 is divided into two pieces. The Normal Cost portion is paid over the working lifetime of the Plan 1 active members. The remaining cost is called the UAAL. The UAAL is paid for by employers as a percent of the salaries of all plan 1, 2 and 3 members until the year 2024.

Pension Benefit Obligation (PBO): The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

Unfunded Liability (Unfunded PBO): The excess, if any, of the Pension Benefit Obligation over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.

Sectional Analysis of I-790

Sec. 1. Overview. *(Effective July 1, 2003)*

Statement of intent.

Comments: None.

Sec. 2. Intent. *(Effective July 1, 2003)*

Statement of intent.

Comments: None.

Sec. 3. Definitions. *(Effective July 1, 2003)*

An additional definitions section is added to Chapter 41.26, applicable to the sections in the act.

Summary of some of the most pertinent subsections include:

(1) "Member or beneficiary" means current, future, retired, separated and vested, and named beneficiaries of the plan.

(2) "Plan" means LEOFF 2.

(8) "Minimum benefits" means those benefit provided for in chapter 41.26 RCW as of July 1, 2003.

(11) "Increased benefit" means a benefit in addition to the minimum benefit.

(13) "Benefits" means age or service required for retirement, disability benefits, DROP plan, average final compensation period, COLA's, health care, but **not** classification of employment eligible to participate in the plan.

(14) "Actuarially sound" means the plan is sufficiently funded to meet its projected liabilities and to defray reasonable operating expenses based upon "commonly accepted, sound actuarial principles."

Comments: Particularly important to the analysis of actuarial impact are the "minimum benefit" and "increased benefit" definitions. The minimum benefits are, as is also stated in section 6(b)(ii), contractually-protected rights of the members. The definition explains that those benefits that are part of chapter 41.26 RCW as of July 1, 2003 are minimum benefits, and thus are contractual rights. The initiative makes one addition to the minimum benefits: in section 6(5), described below.

"Benefits" defined in subsection (13) generally describes what may be among the features of the minimum benefits or the increased benefits, and specifically excludes LEOFF 2 membership eligibility.

Sec. 4. Board created. *(Effective July 1, 2003)*

An 11 member board consisting of 6 police and fire fighter member representatives (some of them retirees after 2006), 3 employer representatives, and 2 legislators. The governor shall appoint the employer representatives and the police and fire member representatives from a list provided by the employee organizations. The governor shall also appoint the legislative board members based on the recommendation of the speaker of the House of Representatives and the majority leader of the Senate.

Comments: None.

Sec. 5. Powers of the Board. *(Effective July 1, 2003)*

Summary of subsections:

The board has the following powers and duties:

(1)(a) Adopting actuarial tables, assumptions, and methods in consultation with an enrolled actuary retained by the board. The enrolled actuary retained by the board shall utilize the aggregate actuarial cost method, or other recognized actuarial method based on a level percentage of pay. The enrolled actuary retained by the board shall provide a copy of all calculations to the State Actuary for concurrence, disagreements being resolved by a third actuary.

(b)(i) Provide for increased benefits (a defined term) subject to the contribution limitations in section 6 of the act. Increased benefits may be approved by the board after costs are determined by the board's actuary and contribution rates are adjusted as may be required to maintain the soundness of the plan. Approved increased benefits shall be presented to the legislature on January 1st of each year, and shall become effective unless a bill is enacted in the ensuing session repealing the board action.

(b)(ii) Make recommendations to add benefits to the legislature without regard to the cost limitations of section 6(3). Recommendations are presented to the Legislature on January 1st of each year, take precedence over all measures before the Legislature except appropriations bills, and shall be enacted or rejected without change or amendment. Benefits adopted in this manner shall be contractual rights of members, just as are the minimum benefits in the plan.

(c)-(g) Retain professional and technical advisors as needed, consult with DRS, and provide an annual report to the governor and legislature on plan status. Establish administrative rules and operating policies and engage staff and acquire office space either independently or with DRS.

(h) Annually publish a schedule of increased benefits and summary of the minimum benefits that shall constitute the official plan document.

(i) Be the "fiduciary of the plan" and discharge the board's duties solely in the interest of members and beneficiaries.

(2)(a)-(d) To conduct meetings open to the public with timely notice and lawfully closed executive sessions.

(3) Quorum for the board is six members, and all board actions require six votes.

(4) Decisions of the board are final and conclusive. Decisions are subject to judicial review as provided by law.

(5) Create an expense fund and budget for the purpose of defraying the expenses of the board with funding drawn from the investment income of the trust. The board shall retain the services of an independent CPA to annually audit the expenses of the fund.

Comments: Currently assumptions and rates are adopted by the Pension Funding Council in Chapter 41.45 RCW. The relevant provisions in, for example, Chapters 41.45 and 41.50 RCW are not amended in the initiative.

Two separate mechanisms for adding benefits are created in subsection 1(b) of section 5. The first, in 1(b)(i) creates "increased benefits" by board action subject to legislative disapproval. The second adds to the minimum benefit, without the cost limitations that exist for the increased benefits in section 6(3), by the board submitting recommended changes to the legislature which must be approved or rejected by the legislature without change.

Future legislation or board action could change costs and some or perhaps any of the provisions in the initiative or other related statutes. This analysis does not assume that any independent changes or conditions either occur or do not occur.

Sec. 6. Contributions. *(Effective July 1, 2003)*

Summary of subsections.

(1) The board shall establish contributions as set forth in this section, the total contributions will be divided between employees (50%), employers (30%), and the state (20%).

(2) The state and employers shall maintain the minimum benefits, which may not be reduced below the levels in effect on July 1, 2003, on a sound actuarial basis in accordance with the actuarial standards adopted by the board.

(3) Increased benefits created in section 5 of the act are granted on a basis not to exceed the contributions provided in this section. In addition to the contributions necessary to maintain the minimum benefits, the employee contribution for increased benefits shall not exceed 50% of the cost. In no event shall the employee cost exceed 10%, the employer cost 6%, or the state cost 4% of covered payroll without the consent of each.

If the cost of increased benefits exceed the contributions provided for in this section, the board shall give the members the option of paying the increased costs to maintain the increased benefits, or reduce the benefits to meet the available funding. The reduction of increased benefits by this section shall not be deemed a violation of the contractual rights of members.

(4) The board shall manage in a manner that maintains reasonable contributions and administrative costs, with their priority being additional benefits for members and beneficiaries.

(5) "All earnings of the trust in excess of the actuarially assumed rate of investment return shall be used exclusively for additional benefits for members and beneficiaries."

Comments: The first three subsections of section 6 concern the board's establishment and distribution of contributions, the funding of the minimum benefits, and the funding of the increased benefits, respectively.

The first subsection states that the board shall establish the contribution rates as detailed in the section, and for the minimum benefits the cost shall be distributed to employees, employers, and the state on a 50/30/20 ratio, as LEOFF 2 is now.

The second subsection concerns the minimum benefits as a contractual obligation, and that they shall be funded on a sound actuarial basis.

The third subsection concerns the increased benefits. It states that the increased benefits "are granted on a basis not to exceed the contribution provided for in this section." The following sentence appears to qualify that statement, stating: "In addition to the contributions necessary to maintain the minimum benefits, for any increased benefits provided for by the board..." The subsection then goes on to describe limitations on contributions and their distribution between the members, employers, and the state. It states that "in no instance shall the employee cost exceed ten percent of covered payroll," and has proportionate caps for the employer and state. Each cap may be lifted by the consent of that entity.

These caps appear to apply, as does the subsection overall, to the increased benefits and not the minimum benefits. The first two sentences of the subsection, page 7 lines 10-13, indicate that this involves funding the increased benefits, and are "in addition to the contributions necessary to maintain the minimum benefits..." Also, on page 7 lines 26-31 the consequences of the cost of the increased benefits exceeding the limitation of the "section" are detailed - either the increased benefits are reduced, or the affected members may pay "the increased costs." No reduction of "increased benefits" by the board may result in benefits being lower than the level of the minimum benefits.

Subsection 5 of the section is an increase to the minimum benefits of LEOFF 2. As is commented upon in several parts of this analysis, this section is codified in Ch. 41.26 RCW and comes into effect on July 1, 2003, meeting the criteria of the minimum benefit as defined in section 3(8). "All earnings of the trust in excess of the actuarially assumed rate of investment return", currently fixed in statute until May of 2004 at 8% per year, "shall be used exclusively for additional benefits for members and beneficiaries." While the method of distribution to members and beneficiaries is not specified, the method of determining the amount of this "investment return benefit" provision each year is clear. The dedication or identification of these amounts to additional benefits for members and beneficiaries in a sense removes them from the assets available to fund the other minimum benefits of LEOFF 2. Because the identified assets will be unavailable to fund the other minimum benefits, additional contributions are required to begin funding for the future cost of the investment return benefit.

Sec. 7. Nonapplicability of the Joint Committee on Pension Policy and the Pension Funding Council. *(Effective July 1, 2003)*

The short section states that neither the JCPP nor the PFC have "applicability or authority" over matters relating to LEOFF 2.

Comments: No instances of this language appear in Washington legislative documents during the past 17 years. It is unclear how specific duties relating to LEOFF 2 that remain in statute with the JCPP (appointment and removal of the State Actuary), DRS, and particularly the PFC (rates and assumption-setting, etc.) are affected by this nonapplicability language.

Sec. 8. Asset management. *(Effective July 1, 2003)*

The State Investment Board shall manage the assets of the board as provided by state law.

Comments: None.

Sec. 9. Severability. *(Effective July 1, 2003)*

Standard severability language. States that if any section is held invalid, the remainder is not affected.

Comments: None.

Sec. 10. Captions not law. *(Effective July 1, 2003)*

Comments: None.

Sec. 11. Implementing legislation. *(Effective 30 days after election)*

DRS and OSA shall prepare and submit "proposed legislation for implementing this act" to the fiscal committees of the legislature by January 15, 2003.

Comments: While instructions to an administrative agency to promulgate rules implementing a legislative act are common, and committees or commissions are sometimes charged with development of methods of implementation of broad policy objectives (see, e.g. Chapter 331, laws of 2002), the scope or effect of "implementing legislation" contemplated here is unclear.

As mentioned earlier, future legislation or board action could change some or perhaps any of the provisions in the initiative or other pension-related statutes. This analysis does not assume that any independent changes or conditions either occur or do not occur.

Sec. 12. Codification. *(Effective July 1, 2003)*

Sections 1-9 of this act, which includes the creation of the board, board powers and duties, and contributions (which includes the additional "gain-sharing" benefit), are to be codified in Chapter 41.26 RCW.

Comments: Among those sections and subsections codified in Chapter 41.26 RCW is section 6, subsection (5), the new benefit of "All earnings of the trust in excess of the actuarially assumed rate of investment return shall be used exclusively for additional benefits for members and beneficiaries" subsection.

Sec. 13. Effective date. *(Effective July 1, 2003)*

Except for section 11, directing DRS and OSA to prepare implementing legislation, the act takes effect July 1, 2003.

Comments: As section 6, subsection (5) is added to Chapter 41.26 RCW, and comes into effect on July 1, 2003, it satisfies the criteria of "minimum benefits" described in section 3(8).

the excess is effectively removed from the funding process. Thus, the long-term average effective earnings rate is less than 8%.

Gross Investment Return Rate vs. Effective Investment Return Rate

For example, in the 25-year life of LEOFF 2, if the assets of the fund had always been allocated among assets classes as they are today, the fund return would have exceeded 8% in 16 years. The average return over that period would have been 13.02%. However, if the Section 6(5) had been in place during this period, the effective rate, after allocation of the amount in excess for distribution, would have been 5.64%.

Thus, in order to quantify the impact of Section 6(5), I suggest that we find an assumed effective rate of return. Performing an actuarial valuation at that effective rate will make reasonable provision for the additional outflows from the plan represented by the allocations of earnings in excess of 8%.

It should be noted that this process does not result in a change of the investment return assumption. The gross rate of return used in the valuation remains 8%, as required by statute. Using the effective rate of return is simply a method of reflecting the additional outflows from LEOFF 2 as a result of this provision.

Estimating the Effective Investment Return Rate

We have looked at the problem of estimating the effective investment return rate in several ways:

- We reviewed historical rates of investment return over the lifetime of LEOFF 2 (1977 – 2002), based on the current asset allocation policy of the Washington State Investment Board. As set out above, the gross return would have averaged 13.02%. However, had Section 6(5) been in place during this time, the effective rate of return would have been 5.64%, a reduction of 57% in effective return. A reduction of 57% of the gross investment return assumption of 8% would yield an effective rate of return of 3.47%.
- An additional analysis, based on projections from historical returns, resulted in an effective rate of 2.9%.

In discussing the future with investment professionals, a consensus view seems to be that the future returns from equities are expected to be lower in the next decade than in recent decades. Thus, while it would be reasonable to use an effective return rate assumption of 3% - 3.5% based on our historical reviews, I recommend an effective rate assumption of 4.00%. This assumption reflects the expectations that:

- Future returns will not be as high as in the recent past, and
- In years in which losses occur, those losses will not be as deep as in recent years.

Summary

In summary, I recommend that the fiscal impact of Section 6(5) of Initiative 790 be determined by comparing valuation results based on a gross investment return assumption of 8% to results based on an effective return assumption of 4%. I recommend that these valuations:

- Be performed as of December 31, 2000, using member data and assets as of that date, and
- Be based on the new set of demographic assumptions developed in the 1995-20000 Experience Study.

GRS

GABRIEL, ROEDER, SMITH & COMPANY
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July 18, 2002

Mr. Larry Risch
Deputy State Actuary
2420 Bristol Court S.W.
Olympia, WA 98504

Re: Initiative 790

Dear Mr. Risch:

At your request, we have reviewed the provisions of Initiative 790 for the purpose of providing advice as to quantifying the impact of the provisions of this initiative which affect the benefits of LEOFF Plan 2. While, under the initiative, the new Board would be empowered to suggest "increased benefits" under the system, this analysis is limited to the effect of Section 6(5).

This Section reads as follows:

> All earnings of the trust in excess of the actuarially assumed rate of investment return shall be used exclusively for additional benefits for members and beneficiaries.

We feel that, in the absence of specific language to the contrary, this means that:

- Any amounts of investment earnings in any year which exceed 8% (the current assumed rate of investment return) are segregated from funds to be used to fund the current benefits of LEOFF Plan 2 and are used to provide increased benefits to members and beneficiaries of the System.
- The method of distribution of such funds is not specified. But, it is clear that such funds are to be used to provide benefits that are in addition to those currently provided under LEOFF Plan 2.

Investment Return Assumption – General

In funding a retirement system, a number of assumptions are employed. Each of these assumptions is intended to reflect the long term expected future experience of the system. Thus, while actual experience will vary year-by-year, over the long term it is hoped that actual experience will average close to that assumed.

The investment return assumption operates in that way. As we know, investment return rates actually earned by the fund vary widely each year. The hope is that, over time, the rate of return in the fund would average at least 8%. However, if Section 6(5) is in effect, the maximum effective rate which can be earned by the fund in any year is 8%. When the earnings exceed 8%,

- Be based on all economic assumptions, other than the investment return assumption, utilized and set out in the actuarial valuation report of LEOFF 2 as of December 31, 2000, adjusted for the new demographic assumptions adopted in the prior legislative session.

Please feel free to call us if you need any additional information.

Sincerely,

Norman S. Losk, FSA
Senior Consultant

NSL:cml